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Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail operations

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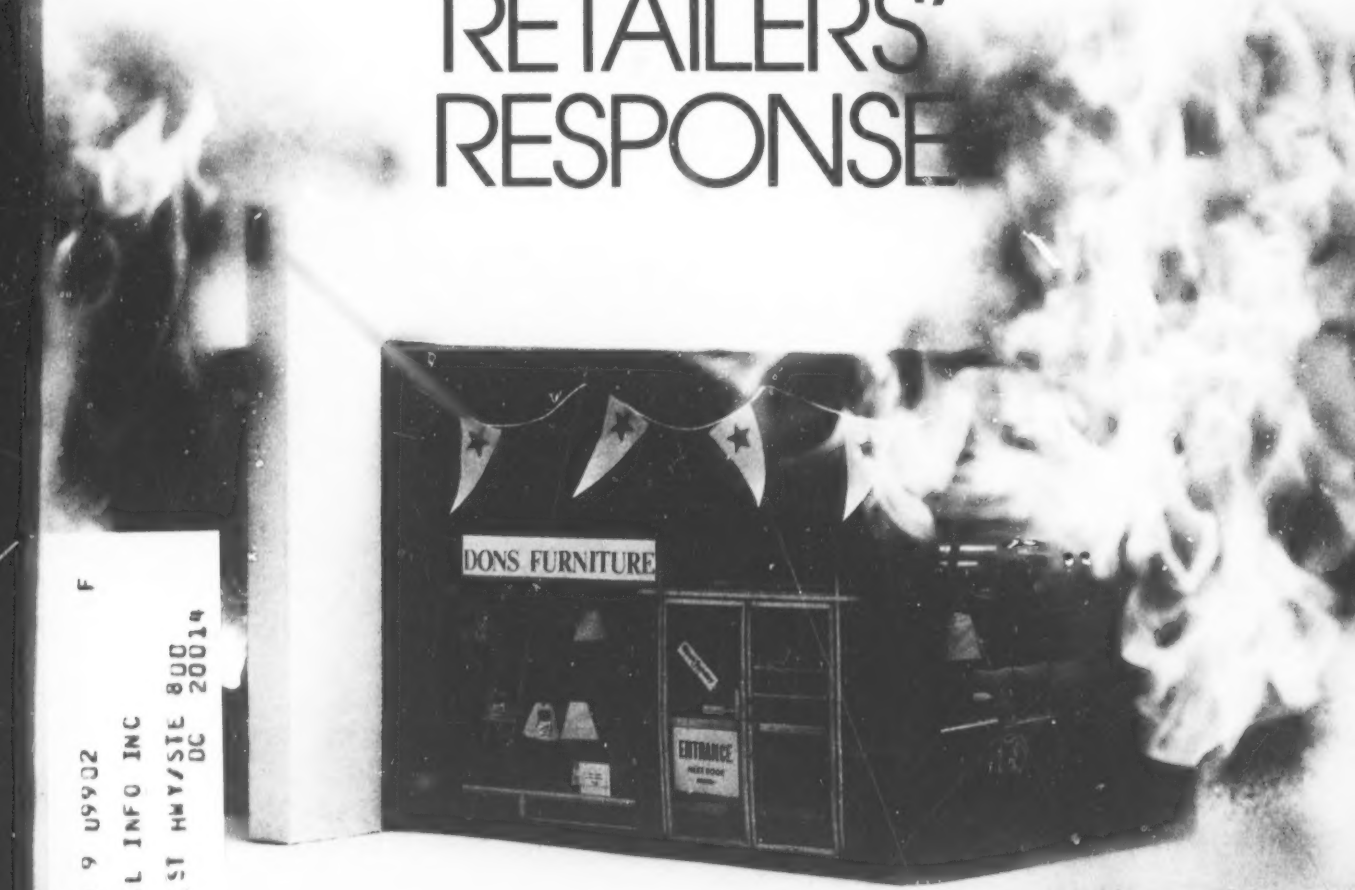
FIRES SPARK RETAILERS' RESPONSE



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Accounting News & Views

William U. Westerfield

Inflation is hard to measure

You almost have to be a magician to interpret retailers' financial results these days. It wasn't always so. Not too long ago, year-to-year comparisons made some sense because a dollar of sales or income in a given year was pretty much comparable to previous periods. Not anymore. But how can we measure the dramatic lack of comparability brought on by inflation?

Two ways have been mandated by the F.A.S.B. Retailers tried the first way last year—measurement in constant dollars—and some vocal critics found it misleading. Their thesis: The mandated Consumer Price Index used did not reflect retail price changes.

This year-end retailers will use not only last year's constant-dollar approach but now must add the current-cost method. (The constant-dollar method focuses on the effects of general price changes using the CPI whereas the current-cost method isolates the effects of specific price changes by valuing existing assets at their current replacement cost.)

When retailers' constant-dollar results were published last year, we analyzed them with the results indicated in the chart included here.

We concluded that retailers' real profits adjusted for inflation:

- Show "illusory growth by any measure";
- Suggest that dividend expectations may not match realities of capital formation needed to modernize and expand;
- Demonstrate that retailers must have realistic tax relief from inflation if they are to provide additional employment and achieve greater productivity.

Inflation's impact on retailers' 1979 results:	Historical cost* (as reported in a normal manner, %)	Constant dollars* (%)
Income from continuing operations	100	38
Return on net assets	17	5
Effective income tax rate	44	74
Dividend payout ratio	31	268
Inflation's impact on 1975-79 growth statistics:		
Sales	81	34
Dividends	109	54
Year-end stock prices	52	7

*Represents unweighted averages for 37 retailers.

Critics of the F.A.S.B.'s inflation reporting standard should ponder Peter Drucker's statement in his recent book *Managing in Turbulent Times:* "Not to adjust to inflation is slothful and irresponsible."

With current inflation equaling or exceeding 1979 and with retailers' results generally disappointing even in historical dollars, we can expect 1980's inflation-adjusted results on a constant-dollar basis to be disappointing indeed. We expect current-cost-adjusted results to be as dismal. *(For more about new retailing ratios, see story, this issue.)*

* * *

William U. Westerfield is chairman of Retailing Industry Services, Price Waterhouse & Co., 153 E. 53rd St., New York, N.Y. 10022.

Security directors are salary vulnerable

The average income for a security director is about $27,200 according to a survey and profile of directors taken by the Bureau of Marketing Research, an affiliate of *Security World* magazine.

"And with inflation eating away at what the moderate salary can do, another finding in the survey is not surprising," says the magazine, explaining that "more than 75% of the respondents said they would leave their jobs for a position offering more money." ■

Shop late, buy cheap

Cliffhanging Christmas retail business is getting to be an annual event, creating an ulcer atmosphere for retailers.

As has been well documented, business in the Christmas just past didn't blossom until Dec. 20, or the Saturday before the holiday. The problem, however, is that most retailers—still reluctant to adjust to the last-minute shopping habits formed during the latter part of the 1970's—panicked and took some drastic markdowns two and three weeks before Dec. 25.

The results will be disclosed soon in the fourth-quarter financial statements: higher volume, bolstered in part by inflation and more stores, but lower earnings, affected by the early markdowns. ■